

not limited to a specific amount) that could jeopardize either the security position of the Government or the applicant's ability to meet the obligations of the prior liens and FmHA or its successor agency under Public Law 103-354 loan, the prior lienholders involved must agree in writing, before the loan is closed, to modify, waive, or subordinate such objectionable provisions.

(f) If a lien is to be taken on real estate which is already subject to a lien, and if State law allows a prior lienholder to foreclose on a loan (under power of sale or otherwise) without notifying a junior lienholder of the foreclosure proceedings, the prior lienholders must agree, in writing, to give FmHA or its successor agency under Public Law 103-354 advance notice of all foreclosure proceedings and of any assignment of the mortgage.

(g) Each real estate lien will be taken on Form FmHA or its successor agency under Public Law 103-354 1927-1 (State), "Real Estate Mortgage or Deed of Trust for _____," unless a state supplement requires the use of another form.

(h) If the real estate offered as security is held under a purchase contract, the following conditions must exist:

(1) The applicant must be able to provide a mortgageable interest in the real estate.

(2) The applicant and the purchase contract holder must agree, in writing, that any insurance proceeds received to compensate for real estate losses will be used only to replace or repair the damaged real estate. If necessary, the applicant will negotiate with the purchase contract holder to arrive at a new contract without any provisions objectionable to either FmHA or its successor agency under Public Law 103-354 or the lender.

(3) If a satisfactory contract of sale cannot be negotiated or if the purchase contract holder refuses to agree to apply the insurance proceeds toward the repair or replacement of the real estate and wants to retain some of the proceeds as an extra payment on the balance owned, the applicant will make every effort to refinance the existing purchase contract.

(4) The purchase contract must not be subject to summary cancellation on

default and must not contain any other provisions which might jeopardize either the Government's security position or the borrower's ability to repay the loan.

(5) The contract holder must agree, in writing, to give the Government notice of any breach by the purchaser, and must also agree to give the Government the option to rectify the conditions which amount to a breach within 30 days. The 30 days begin to run on the day the Government receives the written notice of the breach.

[51 FR 13448, Apr. 21, 1986, as amended at 56 FR 67480, Dec. 31, 1991; 58 FR 26680, May 5, 1993]

§§ 1941.85–1941.87 [Reserved]

§ 1941.88 Insurance.

(a) *Catastrophic Risk Protection (CAT) insurance requirement.* Applicants must obtain at least the CAT level of crop insurance of coverage for each crop of economic significance, as defined by the Federal Crop Insurance Corporation, if such coverage is offered. The applicant can meet this requirement by either:

(1) Obtaining at least the CAT level of coverage or,

(2) Waiving eligibility for emergency crop loss assistance in connection with the uninsured crop. EM loss loan assistance is not considered emergency crop loss assistance for purposes of this waiver.

(b) *Crops.* Crop insurance is a good management tool. Loan approval officials will, therefore, during the loan making process, encourage all borrowers who grow crops to obtain and maintain Federal Crop Insurance Corporation (FCIC) crop insurance or multi-peril crop insurance, if it is available.

(1) When OL loan funds are to be used as the primary source of financing for the ensuing year's crop production expenses, and such crop(s) will serve as security for the loan, and crop insurance is purchased by the borrower, FmHA or its successor agency under Public Law 103-354 requires and "Assignment of Indemnity" on the borrower's crop insurance policy(ies).

(2) When FmHA or its successor agency under Public Law 103-354 is not the

primary lender for annual crop production expenses, but has or will have a security interest in the crop(s), and the applicant has purchased or will purchase crop insurance, an “Assignment of Indemnity” is taken by FmHA or its successor agency under Public Law 103–354, if the primary lender chooses not to do so.

(3) When the payment of crop insurance premiums is not required until after harvest, the premiums may be paid by releasing insured crop(s) sale proceeds, but not withstanding the limits in §§ 1962.17 and 1962.29(b) of subpart A of part 1962 of this chapter. If the borrower’s crop losses are sufficient to warrant an indemnity payment, the premium due will be deducted by the insurance carrier from such payment.

(c) *Chattels and real estate.* Chattel property that secures OL loans must be covered by hazard insurance unless the Agency determines that coverage is not readily available or the benefit of the coverage is less than its cost. When insured, chattel property must at least be covered at its tax or cost depreciated value, whichever is less. Real property must be covered by general hazard and flood insurance in accordance with subparts A and B of part 1806 of this chapter.

(d) *Public liability and property damage.* Borrowers should be advised of the possibilities of incurring liability and encouraged to obtain public liability and property damage insurance, including insurance on a customer’s property in the custody of the borrower.

(e) *Mortgage clause.* When insurance is required on property serving as security, Form FmHA or its successor agency under Public Law 103–354 426–2, “Property Insurance Mortgage Clause (Without Contribution),” or a standard mortgage clause in general use in the area will be attached to or printed in the policy and will show the United States of America (Farmers Home Administration or its successor agency under Public Law 103–354) as mortgagee or secured party.

[43 FR 55883, Nov. 29, 1978, as amended at 47 FR 33486, Aug. 3, 1982; 53 FR 35691, Sept. 14, 1988; 58 FR 26680, May 5, 1993; 62 FR 9355, Mar. 3, 1997; 62 FR 28618, May 27, 1997]

§§ 1941.89–1941.91 [Reserved]

§ 1941.92 Check delivery.

The County Supervisor will receive and deliver loan checks. On receipt of a loan check, and after arrangements have been completed for loan closing, the applicant will be promptly notified on Form FmHA or its successor agency under Public Law 103–354 440–8, “Notice of Check Delivery.” Loan funds will be disbursed in accordance with subpart A of part 1902 of this chapter.

[43 FR 55883, Nov. 29, 1978, as amended at 58 FR 26681, May 5, 1993]

§ 1941.93 [Reserved]

§ 1941.94 Supervised bank accounts.

If a supervised bank account is required, loan funds will be deposited following loan closing. Supervised bank accounts will be established in accordance with subpart A of part 1902 of this chapter.

[53 FR 35692, Sept. 14, 1988]

§ 1941.95 [Reserved]

§ 1941.96 Changes in use of loan funds.

(a) *Approval of changes.* County Supervisors, or their delegates, are authorized to approve changes in the purposes for which loan funds are to be used provided:

(1) The change is consistent with authorities, policies and limitations for making loans, and

(2) The change will not adversely affect either the workings of an on-going operation or the Government’s interest.

(b) *Recording changes.* When changes are made in the use of loan funds, the installments on Form FmHA or its successor agency under Public Law 103–354 1940–17, “Promissory Note,” will not be revised. When funds loaned for the purchase of capital goods are to be used for annual recurring production expenses, the funds will be repaid in accordance with the terms for such uses in subpart A of this part. Appropriate changes with respect to the repayments will be made in table K of Form FmHA or its successor agency under Public Law 103–354 431–2, “Farm and Home Plan,” also on Form FmHA or